

Hold

CMP: Rs 72

Target Price: Rs 71

Potential Downside: 1%

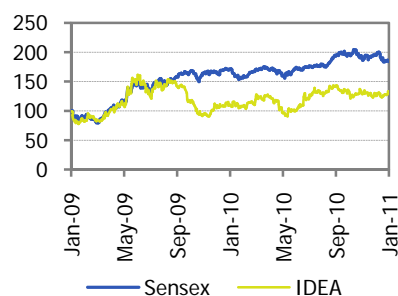
Key Statistics

M cap (INR bn/US\$ mn)	: 236.6/5,171
Avg 3m daily volume	: 3,713,921
Avg 3m daily value	: US\$5.6mn
Shares O/S (mn)	: 3,302
Reuters	: IDEA.BO
Bloomberg	: IDEA IN
Sensex	: 18,969
Nifty	: 5,687
52-Wk High/Low	: 80/49

Shareholding Pattern (Dec10) (%)

Promoter	47.0
FII's	9.7
MFs, FIs & Banks	7.0
Others	36.3

Relative Performance



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Financial summary

Year-end	Sales	YoY	EBITDA	YoY	NP	YoY	EPS	YoY	PE	EV/EBITDA	PSR	PBR	RoE	RoCE	DPS	Div Yield
March	(Rs mn)	(%)	(Rs mn)	(%)	(Rs mn)	(%)	(Rs)	(%)	(x)	(x)	(x)	(x)	(%)	(%)	(Rs)	(%)
FY2010	124,471	22.6	34,071	20.4	9,539	8.2	2.9	1.6	24.8	9.2	1.9	2.1	7.7	6.7	-	-
FY2011E	154,296	24.0	37,541	10.2	9,124	-4.4	2.8	-4.4	25.9	9.4	1.5	1.9	7.7	6.3	-	-
FY2012E	187,323	21.4	47,089	25.4	7,493	-17.9	2.3	-17.9	31.5	7.4	1.3	1.8	5.9	6.8	-	-
FY2013E	222,489	18.8	57,567	22.3	12,598	68.1	3.8	68.1	18.7	5.8	1.1	1.7	9.2	8.8	-	-

Minutes growth back on track, recommend Hold

Idea Cellular reported revenues and net profit of Rs39.6bn and Rs2.4bn in 3QFY11, a sequential increase of 8.1% and 35.2% respectively. The growth in revenues was driven by a 10% increase in minutes of usage, whereas higher profitability was on account of a lower interest expense.

We expect the company to report an EPS of Rs2.8 and Rs2.3 in FY11 and FY12 respectively. The decrease in EPS in FY12 is on account of higher amortisation and higher interest cost due to the launch of 3G services. We estimate Idea could report an EPS of Rs3.8 in FY13. The stock is currently quoting at FY12 and FY13 EV/EBITDA of 6.7x and 5.2x respectively; we recommend a **Hold** with a target price of Rs71.

Key highlights

Increase in minutes of use drives revenue growth: Idea reported an 8.1% sequential growth in revenues to Rs39.6bn, which was driven by a seasonal 10.2% increase in total minutes of use in the wireless business to 93.5bn minutes. The company reported a robust growth in minutes usage in 9MFY11, driven by lower tariffs and increasing market share. Going forward, we expect revenues will continue to be driven by the growth in minutes usage.

ARPM stabilising: Idea reported an ARPM of 41.8p/min in 3QFY11 as against 42.3p/min in 2QFY11, a decline of 1.2% QoQ. However, the decline has reduced and we expect it would stabilise at these levels in the quarters ahead. The company's ARPM has declined from 51.4p/min in 3QFY10 to 41.8p/min in 3QFY11 due to reducing tariffs.

EBITDA margins flat at 24%: Despite reporting an increase in customer acquisition cost and advertising expenses, the EBITDA margins were flat at 24% in 3QFY11. This was on account of lower network charges as Idea writes back certain provisions and economies of scale. Margins were also helped by the marginally lower losses in new circles.

Gains revenue market share despite hyper competition: The company has been able to maintain its market share in the past eight quarters, despite the launch of GSM operations by new players. Idea's subscriber market share has been steady at 10.9% in the past eight quarters. More importantly, it has also been able to increase its revenue market share from 10.7% in 2QFY09 to 12.8% in 2QFY11 (TRAI data available only up to 2QFY11).

MNP not expected to be a "game changer": Idea believes that though the mobile number portability (MNP) could result in slightly higher churn, it is unlikely to be a "game changer" in the Indian telecom market. The management also commented they have not seen any significant churn in Haryana, where MNP was launched in Nov10. It also does not believe the tariffs in post paid category would reduce significantly, post MNP launch.

Leverage to decline, going forward: We expect Idea would start generating FCF in FY12 and also believe excluding the cash outgo on account of the 3G licence fees, the company would be FCF positive in FY11. Thus, we expect the net debt/EBITDA to decline from 3.2x at FY11 end to 1.7x by FY13 end.

Financials: We estimate Idea could report an EPS of Rs2.8 in FY11. However, due to the higher amortisation of licence fees arising from the launch of 3G operations and higher interest expense, we estimate the EPS would decline by 18% in FY12 to Rs2.3. We note the company has till now capitalised ~Rs2.7bn of interest cost pertaining to the debt taken on account of 3G. We further expect Idea shall report an EPS of Rs3.8 in FY13, implying a three-year EPS CAGR of 9.7%.

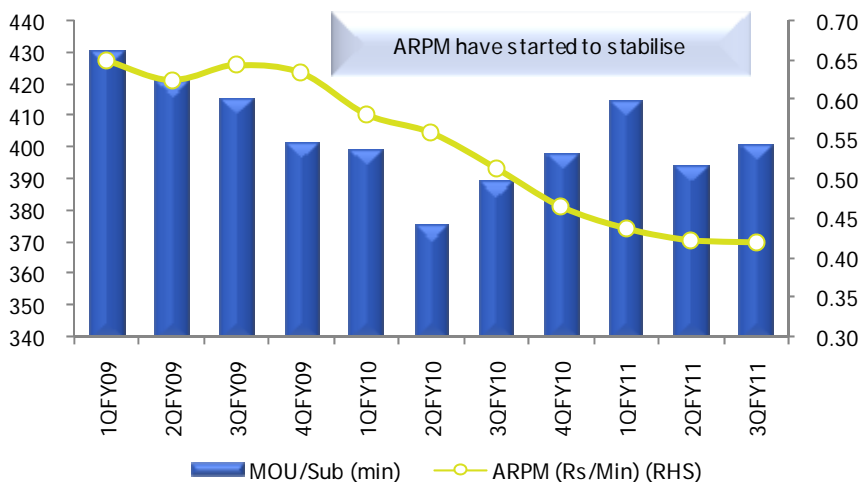
Valuation and recommendation: The stock is currently quoting at FY12 and FY13 EV/EBITDA of 6.7x and 5.2x respectively. We recommend a **Hold**, with a DCF-based target price of Rs71, including Rs23/share as the value of its 16% stake in Indus Towers.

Quarterly result table

(Rs mn)	3QFY11	2QFY11	QoQ	3QFY10	YoY
Revenues	39,556	36,592	8.1%	31,495	25.6%
Cost of Trading Goods	96	98	-1.8%	75	28.5%
Manpower cost	2,072	2,155	-3.9%	1,784	16.1%
Network Operation cost	9,936	10,091	-1.5%	7,937	25.2%
License and WPC charges	4,529	4,178	8.4%	3,452	31.2%
Roaming and Access	6,356	5,825	9.1%	4,533	40.2%
Sub acquisition and Advtg exp	5,344	4,015	33.1%	4,241	26.0%
Other Expenditure	1,741	1,443	20.7%	1,332	30.7%
EBITDA	9,483	8,788	7.9%	8,141	16.5%
<i>EBITDA Margin %</i>	<i>24.0%</i>	<i>24.0%</i>		<i>25.9%</i>	
Depreciation	5,925	5,820	1.8%	5,131	15.5%
EBIT	3,557	2,968	19.8%	3,011	18.1%
<i>EBIT Margin %</i>	<i>9.0%</i>	<i>8.1%</i>		<i>9.6%</i>	
Interest Expense (Net)	941	1,028	-8.4%	938	0.3%
Other Income	0	0		0	
PBT	2,616	1,940	34.8%	2,073	26.2%
Tax	186	143	29.8%	372	-50.1%
<i>Tax Rate</i>	<i>7.1%</i>	<i>7.4%</i>		<i>17.9%</i>	
Net Profit before Minority	2,431	1,797	35.2%	1,701	42.9%
<i>NPM %</i>	<i>6.1%</i>	<i>4.9%</i>		<i>5.4%</i>	
EPS	0.74	0.54	35.2%	0.52	42.8%

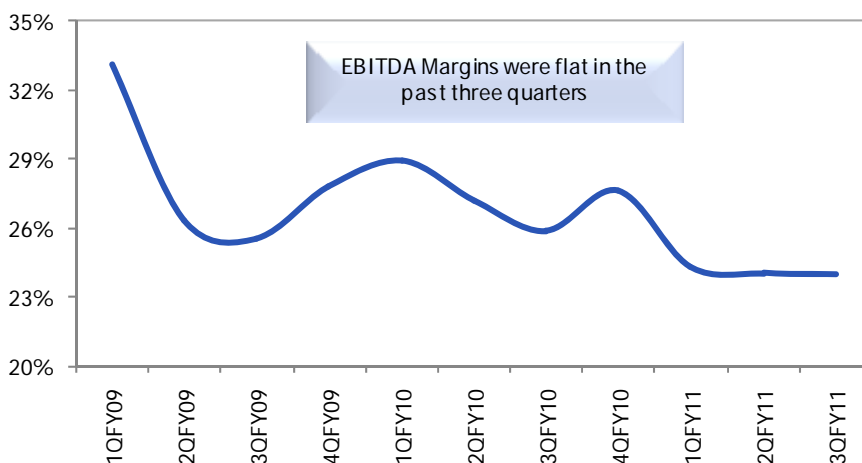
Source: Tata Securities Research.

Chart 1: ARPM and MOU/sub-India Wireless



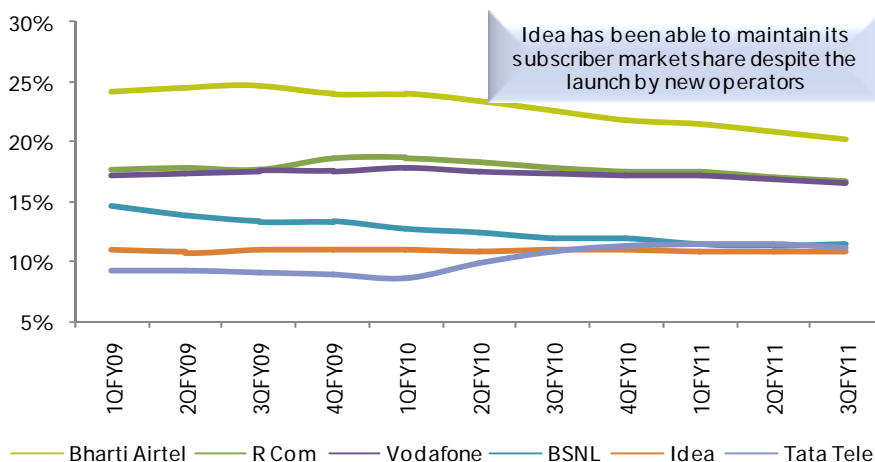
Source: Company data, Tata Securities Research.

Chart 2: EBITDA margins



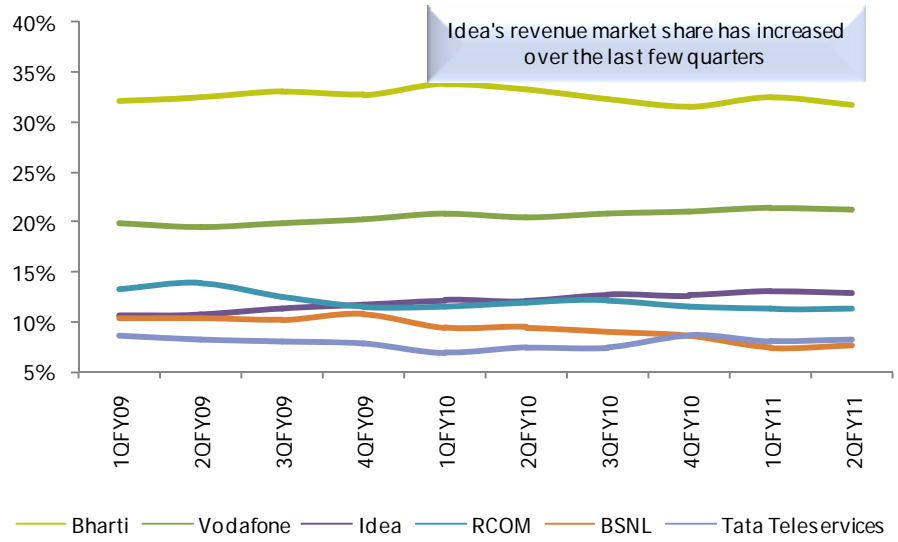
Source: Company data, Tata Securities Research.

Chart 3: Subscriber market share



Source: COAI, AUSPI, TRAI, Tata Securities Research.

Chart 4: Revenue market share



Source: TRAI, Tata Securities Research.

Financials

Profit & Loss (YE March)

(Rs Mn)	FY10	FY11E	FY12E	FY13E
Net sales	124,471	154,296	187,323	222,489
YoY (%)		24.0	21.4	18.8
Access Charges	18,001	24,600	29,710	35,124
License fees, revenue share	13,468	17,651	20,593	23,571
Network operation costs	31,270	40,505	47,609	56,329
Employee Costs	6,451	8,106	9,404	10,873
SG&A	21,209	25,894	32,919	39,025
EBIDTA	34,071	37,541	47,089	57,567
YoY (%)		10.2	25.4	22.3
EBIDTA (%)	27.4	24.3	25.1	25.9
Depreciation	20,149	23,736	30,483	36,030
EBIT	13,922	13,805	16,606	21,537
Interest Expense (Net)	4,005	4,063	8,549	7,539
Other income	836	-	-	-
PBT	10,753	9,742	8,057	13,998
Less: Taxation	1,214	618	564	1,400
<i>Effective tax rate (%)</i>	<i>11.3</i>	<i>6.3</i>	<i>7.0</i>	<i>10.0</i>
Recurring PAT	9,539	9,124	7,493	12,598
YoY (%)		(4.4)	(17.9)	68.1
PAT (%)	7.7	5.9	4.0	5.7
Exceptional items	-	-	-	-
Less: Minority Interest	-	-	-	-
Reported PAT	9,539	9,124	7,493	12,598

Balance Sheet

(Rs Mn)	FY10	FY11E	FY12E	FY13E
Equity capital	32,998	33,010	33,010	33,010
Reserves	80,725	89,849	97,342	109,941
Net worth	113,724	122,859	130,352	142,951
Long Term Debt	78,593	120,427	115,400	100,000
Deferred tax	2,142	2,142	2,142	2,142
Total liabilities	194,459	245,428	247,894	245,093
Net Fixed Assets	181,679	185,253	249,230	243,810
CWIP	5,465	69,172	6,772	6,000
Investments in assoc & JV	11,304	500	500	500
Others	61	61	61	61
Current assets	36,631	32,742	35,732	40,222
Cash	2,900	1,999	2,388	4,306
Debtors	4,656	5,143	6,244	7,416
Inventories	536	600	600	700
Loans and Advances	25,559	22,000	23,000	24,000
Other Current Assets	2,979	3,000	3,500	3,800
Current liabilities	40,680	42,300	44,400	45,500
Current liabilities	38,447	40,000	42,000	43,000
Provisions	2,233	2,300	2,400	2,500
Net current assets	(4,049)	(9,558)	(8,668)	(5,278)
Total assets	194,459	245,428	247,894	245,093

Key Ratios

	FY10	FY11E	FY12E	FY13E
EPS (Rs)	2.9	2.8	2.3	3.8
CEPS (Rs)	9.0	10.0	11.5	14.7
Book value (Rs)	34.5	37.2	39.5	43.3
Dividend per share (Rs)	0.0	0.0	0.0	0.0
Debt Equity Ratio	0.7	1.0	0.9	0.7
Net Debt/EBITDA	2.2	3.2	2.4	1.7
Debtor Days	13	12	12	12
ROCE (%)	6.7	6.3	6.8	8.8
ROE (%)	7.7	7.7	5.9	9.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
Valuation Ratios				
PE (x)	24.8	25.9	31.5	18.7
Cash P/E (x)	8.0	7.2	6.2	4.9
Price/book value (x)	2.1	1.9	1.8	1.7
Market cap/sales (x)	1.9	1.5	1.3	1.1
EV/sales (x)	2.5	2.3	1.9	1.5
EV/EBITDA (x)	9.2	9.4	7.4	5.8

Cash Flow

(Rs Mn)	FY10	FY11E	FY12E	FY13E
Net Income	9,539	9,124	7,493	12,598
Depn ,Taxes and w/o	25,733	28,417	39,595	44,969
Change in working cap	(9,851)	3,990	(1,065)	(2,872)
Operating cash flow	25,421	41,530	46,024	54,695
Capex	(41,580)	(91,017)	(32,060)	(29,838)
Others	12,049	10,804	-	-
Investing cash flow	(29,532)	(80,213)	(32,060)	(29,838)
Dividend	-	-	-	-
Debt	(24,034)	37,770	(13,576)	(22,939)
Others	23	12	-	-
Financing cash flow	(24,010)	37,782	(13,576)	(22,939)
Cash and Cash eq taken over c	157	-	-	-
Net change in cash	(27,964)	(901)	388	1,919
Opening cash	30,864	2,900	1,999	2,388
Closing cash	2,900	1,999	2,388	4,306

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|---|--------------------------------------|
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| 2. Qualifications of the analyst: | BE (Mechanical), PGPM / MSc, Finance |
| 3. Analysts' ownership of any stock related to the information contained: | NO |
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